



Defense Focus

Australian Defense Market Update

Issue 1, CY 2006

February 2006

Export market information for U.S. companies supplying the defense industry

Welcome to **Defense Focus**, a newsletter for U.S. defense industry companies who are interested in the Australian market and opportunities in platforms, systems, components and spares. Some of you, who have been on the road for as long as us, may remember **Defense Focus** from previous times. Australia has seen real action since then, in international peacekeeping efforts, and in coalition initiatives. Much of the Aussie's equipment has been tried and tested (and worn out) under actual conditions, and new capabilities requirements have been identified. That all adds up to more opportunities for U.S. companies, from the big names we all recognize, to the small, specialized suppliers of pumps and alternators without which ships, aircraft and vehicles can't do what they're supposed to. The competition is busy. Don't waste time - *check out the market with us!* For information about defense industry equipment in Australia, as well as other best prospect industries, contact the U.S. Commercial Service at sydney.office.box@mail.doc.gov or visit our web site at URL: www.buyusa.gov/australia

Good hunting!

The U.S. Commercial Service

The U.S. Commercial Service is an agency in the Department of Commerce International Trade Administration. It was founded in 1980 to help U.S. companies, particularly small and medium-sized businesses, to make sales in international markets. The agency's network includes Export Assistance Centers throughout the United States, and more than 150 offices overseas.

Its mission encapsulates this: "*The Commercial Service shall place primary emphasis on the promotion of exports of goods and services from the United States, particularly by small businesses and medium-sized businesses, and on the protection of United States business interests abroad.*"

So let's begin ...

Two of the largest defense projects ever to be undertaken in Australia will be approaching tender stage in the coming months – the acquisition phases of three, AEGIS- equipped, air warfare destroyers and two 26,000 ton amphibious ships, costing \$5-6 billion and \$2 billion respectively.



Australia is an island continent, and therefore its primary defense focus is on maritime defense. Naval and air forces are given high priority capability to perform their tasks, backed up by a mobile, technologically advanced army. The use of a relatively small defense force to maximum advantage has required a series of procurement plans to acquire state of the art information technology, intelligence, command systems, surveillance, subsurface and surface forces, strike capability, and land defense.

In the most recent Australian federal budget (May 2005), \$13.1 billion was allocated to defense, at 1.9% of GDP. This represents a 3% increase on the previous budget, a figure that has been maintained annually since the year 2000. Increased operational activity has accounted for much of the increase, with some analysts in the industry claiming that the capital budget should receive a greater level of funding to avoid impending block obsolescence. The capital equipment *and facilities* budget in the May 2005 budget was \$3.5 billion, close to a four-year average.

In the 2005-2006 Defense Budget

- \$2.52 billion was allocated for new capital equipment, major items being air warfare destroyers and amphibious landing ships
- The 10-year-acquisition plan and current capability plan includes 116 projects worth approximately \$39 billion
- The Australian Department of Defense is receiving an annual increase of 3%.

Despite claims that capital expenditure is too low, Australia is still a primary market for defense platforms and systems.

Australia is in the process of acquiring, or is planning to acquire, a shopping list attractive to U.S. suppliers of mil-spec and COTS equipment used by the military. There are not many, if any, of the items on the list that do not have significant U.S. equipment or technology under the hood – **such as:**

AEW&C aircraft and systems (Boeing 737 MESA's)
satellite communications
secure messaging systems
battlefield command support systems
command systems
air-to air refueling aircraft (EADS)
air warfare destroyers
additional helicopters
communications equipment
antisubmarine and mine avoidance sonar
ship defense systems

surface and underwater strike capability
new strike aircraft (JSF)
long-range standoff weapons
electronic warfare capabilities
amphibious ships
main battle tanks (Abrams M1A1-D)
land surveillance capability
aerial fire support
additional armored vehicles
counter force elements.

The United States enjoys an important strategic defense relationship with Australia. *Interoperability* is a key factor in the Australian's choice of systems for weaponry and platforms. United States companies across the nation provide hardware and software for Australia's defense programs, either through Foreign Military Sales, local subsidiaries, or through supplies of equipment and components via local agents and representatives.

The business of the U.S. Commercial Service is locating local partners looking for U.S. products and services!

Australia's Top Defense Projects (from Defense Budget Papers)
(Approved Expenditure)

Project (Ph = Phase)	Number	A\$m	US\$ M(0.75)
Aerospace			
Airborne Early Warning and Control	AIR 5077 Ph 3	\$3,455	\$2,591
Armed Reconnaissance Helicopter	AIR 87 Ph 2	\$1,964	\$1,473
Australian Defense Force (ADF) Air Refuelling Capability	AIR 5402	\$1,833	\$1,375
F/A-18 Hornet Upgrade	AIR 5376 Ph 2	\$1,474	\$1,106
P-3C Update Implementation	AIR 5276	\$905	\$679
Anzac Ship Helicopter	SEA 1411 Ph 1	\$1,001	\$751
F/A-18 Hornet Structural Refurbishment Program - Stage 1	AIR 5376 Ph 3.1	\$120	\$90
Maritime			
Anzac Ship Project(6)	SEA 1348	\$5,368	\$4,026
Collins Replacement Combat System	SEA 1439 Ph 4A	\$443	\$332
Armidale-class Patrol Boat	SEA 1444	\$477	\$358
New Heavyweight Torpedo	SEA 1429 Ph 2	\$414	\$311
FFG Upgrade Implementation	SEA 1390 Ph 2	\$1,464	\$1,098
Evolved SeaSparrow Missile	SEA 1428 Ph 2B/3	\$273	\$205
Collins-class Reliability and Sustainability Improvements	SEA 1439 Ph 3	\$371	\$278
Anti-Ship Missile Defence	SEA 1448 Ph 2A	\$496	\$372
Land			
Australian Light Armoured Vehicles	LAND 112, Ph 3	\$672	\$504
Upgrade of M113 Armoured Vehicles	LAND 106	\$589	\$442
Direct Fire Guided Weapon	LAND 40	\$142	\$107
Ground Surveillance Radar	LAND 53 Ph 1E	\$84	\$63
Bushranger Infantry Mobility Vehicles	LAND 116	\$352	\$264
Electronics & Weapons			
Jindalee Operational Radar Network	JP 2025 Ph 3/4	\$1,244	\$933
Milsatcom - Ground Infrastructure	JP 2008 Ph 3E	\$148	\$111
Air-to-Surface Stand-Off Weapon Capability	AIR 5398	\$440	\$330
High Frequency Modernisation	JP 2043	\$608	\$456
Air-to-Air Weapons Capability	AIR 5400 Ph 1/2	\$313	\$235
Lightweight Torpedo Replacement	JP 2070 Ph 2	\$319	\$239
Electronic Warfare Self-Protection for Selected ADF Aircraft	AIR 5416	\$290	\$218
New Air Defence Command and Control Systems for 2CRU/3CRU(7)	AIR 5333	\$248	\$186
Air-to-Air Weapons Follow-on Buy	AIR 5400 Ph 3	\$175	\$131
New Air Combat Capability			
New Air Combat Capability (JSF Partnership)	AIR 6000 SDD	\$211	\$158
Total Top 30 Projects		\$25,893	\$19,420

In addition, a major review of Australia's national security was released December 15 2005. It outlined current threats and challenges facing Australia, and the measures the Federal Government is taking to keep Australia secure. The report concluded that terrorism, the proliferation of weapons of mass destruction, and the consequences of state fragility and failure remain the most immediate strategic challenges for Australia. Consequently, it concludes, the ADF needs to confront current international security issues such as terrorism in Iraq and Afghanistan whilst helping build capabilities in South East Asia. It also determined that a competitive defense industry is critical to support, sustain and upgrade defense assets. New initiatives resulting from the changing situation include:

- options for heavy airlift capabilities to supplement the medium lift C-130 J Hercules aircraft,
- an increase in the size and capability of the Australian Army, to make it more hardened and networked,
- reinforcing counter-terrorism efforts,
- using private sector partners to increase efficiencies in defense logistic support.

Over the next ten years, Army will be supplied with new helicopters, tanks, trucks, weapons systems and combat equipment.

Major Conclusions of the Security Report

The report concluded that terrorism, proliferation of weapons of mass destruction, and the consequences of state fragility and failure, remain the most immediate strategic challenges for Australia. It determined a need for the ADF to confront current international security issues such as terrorism in Iraq and Afghanistan while helping build capabilities in South East Asia. It foresees that the ADF will continue to be called on to provide humanitarian assistance, disaster relief, civil emergency response, offshore evacuation and peacekeeping capabilities on an ongoing and often short notice basis. Australia needs to build a balanced Defense Force that is versatile, robust, joint, and integrated, it said.

Defense industry is critical to meeting ADF capability needs, and the Australian Government is committed to policies that will build an internationally competitive defense industry to support, sustain and upgrade ADF assets.

Opportunities in Australian Army Equipment



Australia is buying Abrams M1-A1Ds

Part of the December 2005 announcement was a billion-dollar plan to increase both the size and capability of the Army.

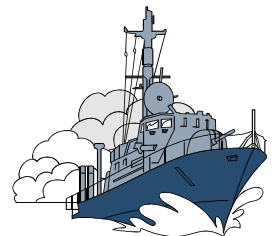
Events over recent years, particularly since 9/11, have made heavy demands on men and equipment. In anticipation that this may continue, the Army will be supplied with heavy-lift aircraft, main battle tanks, helicopters, and battlespace communications equipment. ADF Numbers are expected to increase by around 2,500 personnel.

Also, the Department of Defense is keen to improve the combat effectiveness of the foot soldiers. The future combat soldier will be mobile, networked and hard hitting. The Project under which acquisition will be managed is Project Wundurra.

Opportunities in New Ships

The "Amphibs"

In the Federal Government's December Defense Update, acquisition over the next ten years of new amphibious ships under Joint Project (JP) 2048 is being designed to assure the operational reach of the ADF, consistent with new national objectives centered around: defeating the threat of terrorism; countering the proliferation of weapons of mass destruction (WMDs); and supporting regional states experiencing difficulties due principally to failures in political governance. As such, project JP 2048 envisages the acquisition of two flat-deck amphibious ships up to 26,000 tons to allow for the deployment of much larger and heavier forces (up to 1000 soldiers per ship, and Abrams' tanks) than is currently possible with existing vessels such as HMA Ships 'Manoora', 'Kanimbla' and 'Tobruk'.



As further demonstrated by the Boxing Day 2004 Tsunami, the new amphibious ships and MRH90 helicopters will also provide additional capability for the provision of humanitarian assistance. Systems will deliver over the next decade a major increase in the Navy's capability to project power and support amphibious-based operations. The Australians are opting for an overseas design with a local build (according to some, a costly option), based on either an Amaris or Navantia design.

The AWD's

An Air Warfare Destroyer build contract has been awarded to the Australian Submarine Corporation Limited (a consortium of ASC/AWD Shipbuilder Pty Ltd, Raytheon Australia Pty Ltd, Gibbs & Cox Inc., and Lockheed Martin) This project is expected to generate more than 2,000 jobs throughout Australia in a broad range of fields including electronics, systems integration and fabrication.

The Australian Submarine Corporation, based in South Australia, is responsible for the construction of the ships. However, up to 70% of the module construction will be subcontracted to other shipyards throughout Australia, providing an excellent opportunity for the whole of the Australian defense industry to become involved in the project, and opening up important flow-on benefits for key sub-contractors. This means opportunities for U.S. companies to partner with Australian industry, and in some cases there may be the potential for U.S. companies to establish stand alone operations in Australia to participate in direct contract work where appropriate.

An Opportunity in Land Equipment

Request for Tender (RFT) Provision of Lightweight/light Field Vehicles & Modules & Associated Support for the ADF

Project LAND 121 is part of a multi-phased project that will provide the ADF with the Field Vehicles, Trailers, and Modules it requires to meet its ground mobility requirements beyond the life of type of the current assets. Phase 3A will commence replacement of the current Field Vehicle, Trailer and Module Fleet, and 3B will continue and complete the replacement program for the entire capability.

Qualified companies may register for the RFT at <http://www.defence.gov.au/dmo/lnd/land121/tender/>. Please note that the Australian Department of Defense is not committed contractually or in any other way to those organizations whose registrations are accepted.

New at the Defense helm

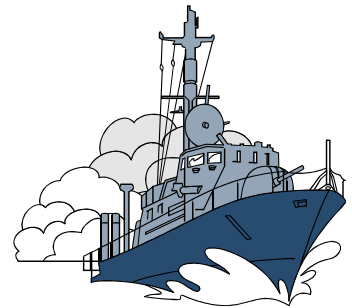


Australian Prime Minister John Howard has appointed a new Minister of Defense, Brendan Nelson, to replace former Senator Minister Robert Hill. Nelson served as the appointed Parliamentary Secretary to the Minister for Defense from 30.01.01 to 26.11.01, and the Minister for Education, Science and Training from 26.11.01 until his current appointment. Dr Nelson has been a key contributor on a range of Government policy committees including Health, Communications, and Treasury and was Secretary of the Government's Workplace Relations Policy Committee. He is also well known for his commitment to the areas of health, medical and social issues including smoking, drugs, Aboriginal health, aged care, youth suicide, human rights and the health effects of unemployment. He now would like to take the opportunity to ensure orderly administration of the Department of Defense and that Australia will continue to play its role in shaping the in events both in the region and the world.

.... and some new crew members

The Australian Department of Defense undertook minor management changes over the recent holiday break.

- Defense Secretary Smith named Michael Pezzullo as Deputy Secretary of Strategy to replace Shane Carmody. Carmody assumed the position of Deputy Secretary Intelligence & Security upon the retirement of Ron Bonighton
- Former Australian Strategic Policy Institute Programs Director, Peter Jennings has replaced Pezzullo as Chief of Staff ADF Headquarters, Coordination and Public Affairs
- Phillip Prior assumed the Department's Chief Finance Officer position, replacing Ken Moore
- Mick Keelty was reappointed as Commissioner of the Australian Federal Police for a second five-year term, from March 2006.



Managing the Capital Acquisition Program

Australia's defense approved **major capital equipment program** is comprised of those projects that generally cost in excess of \$15 million and which, following approval, are transferred from the Defense Capability Plan to the management of the acquisition phase. Projects costing less than \$15million are generally categorized as *minor capital projects*.

The Defense Materiel Organization (DMO) is responsible for managing acquisition to equip and sustain the Australian Defense Force (ADF). It employs around 6,500 people. Following decentralization some years ago, and the establishment of System Support Offices (SPO) DMO extends beyond defense headquarters in Canberra to regional locations that include bases such as RAAF Amberley and RAN Nowra.

SPOs are the focal point for procurement, delivery and sustainment of equipment. The term 'Program Managers' is used to describe a grouping of DMO activities associated with the acquisition of high value, high profile, and strategically significant capabilities. For example, Program managers have been specifically established for the following high profile projects: Airborne Early Warning and Control, Air Warfare Destroyers, and Amphibious Deployment and Sustainment.

The remaining divisions within DMO are described as 'operations', responsible for contracting services, information technology, strategic communications, corporate governance, human resource management, financial services and strengthening relations with industry. The goal of DMO is to "support defense capabilities through efficient and effective acquisition and sustainment of equipment for the ADF". DMO currently manages approximately 240 current major projects, with an average annual budget of around \$3.5 billion in acquisition and sustainment contracts. (*Defense Annual Report, 2004-5*)

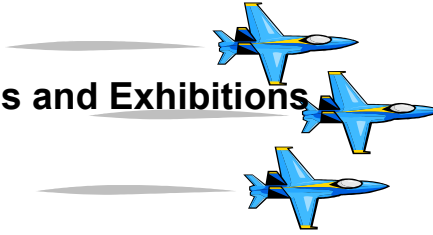
DMO's web site is www.defencegov.au/dmo

Selling to the Australian Department of Defense using Sales Agents and Consultants



- There are no prohibitions against using sales agents to make sales of defense-related products to Australian Government agencies. However, policy leans toward dealing with principals
- Compensation of an agent, on whatever basis, is a matter between the principal and designated agent
- Identity of the local agent is routinely sought in Requests for Tender. Disclosure of payment methods and amounts is not a general requirement
- Agents' fees may be included as a line item in commercial tender submissions, at the discretion of the bidder. It is a commercial decision
- Some consultants engaged in Australia by U.S. principals are paid on a flat fee basis; others operate on a commission basis. Again, it is a commercial decision
- Agents and consultants do not necessarily have to be Australian citizens
- The general commercial framework determines the relationship, and its termination, between principal and agent. The relationship is commonly established and dismantled by written agreement, which may contain relevant "out" clauses. There are no laws or regulations specific in this respect to Defense or other government departments.

Conferences and Exhibitions



Association of Old Crows Electronic Warfare

"From Technology to EW Systems"

February 13-14 2006

Adelaide Convention Center

<http://www.oldcrows.org.au/>

CeBIT Australia 2006

Information and Communications Technology

May 9-11, 2006

Darling Harbor, Sydney

www.buyusa.gov/australia

Annual Defense and Industry Conference

The Australian Defense Department's annual presentations to industry

National Convention Center Canberra

June 19-21, 2006

The event has its own web site each year on which some of the transcripts are posted – 2006 is not active yet, but check www.defenceandindustry.com.au from time to time.

Expeditionary Forces

"Increasing the capability, readiness and effectiveness of deployed forces through combat services support".

Feb 28- March 1, 2006

Hyatt Hotel, Canberra

<http://www.iqpc.com.au/DefenceIQ>

Heli Pacific 2006

Civil and military helicopter event

Royal Pines Resort, Queensland

May 31- June 1, 2006

www.shephard.co.uk/heli-pacific

SimTect 2006

Simulation Conference and Exhibition

Melbourne Convention Center, Melbourne

June 1, 2006.

www.simtect.com

To register, contact the Conference Secretariat,

PO Box 3127,

Belconnen Delivery Center

ACT 2617, Australia.

Tel: +61 2 6251 0675, fax: +61 2 6251 0672

IGNSS2006

International Global Navigation Satellite Systems Society

Holiday Inn Surfers Paradise, Queensland

July 17 – 21, 2006

<http://www.ignss.org>

Australian International Air Show

Avalon Airport, Victoria

March 20-25, 2007

www.airshow.net.au



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Defense and Security Sectors Growing Closer

In the coming year it is estimated that \$23 billion will be spent on keeping Australia safe. The private security sector alone will account for about 15% of this figure, and it is forecast to grow at a rate of 5.5% per annum over the next 5 years. Rapid advancements in electronic security technology are leading to increasingly sophisticated products and services being offered to customers. These technologies include:

- ✦ Access control – systems for building management, evacuation, standalone networks,
- ✦ Biometric technology – identification, health care, distance learning, computer networks,
- ✦ Video surveillance technology - local and state government crime control,
- ✦ GPS tracking devices - effective logistics management tools,
- ✦ Wireless technology - vessel tracking, smart card interfaces, logistics management.



**Australian Security Industry
Association Limited**

The Security 2006 Conference & Exhibition, being organized by the **Australian Security Industry Association**, is the event that brings the industry's key decision makers, leaders, suppliers and customers together to do business – it's the show "organized by the industry for the industry".

Whether you are seeking new sales or testing the market, we can help your business meet its objectives for the Australian market.

The U.S. Commercial Service invites your company to join a U.S. promotion in order to participate in our services to U.S. exhibitors and build your profile in the Australian market at **Security 2006**. For more details contact phil.keeling@mail.doc.gov

This newsletter is based on information taken from printed and electronic published sources, trade magazines, Australian Annual Defense Reports, media releases, and local sources.